

EXPORTS, GROWTH AND JOBS—REAUTHORIZING
FEDERAL EXPORT ASSISTANCE PROGRAMS,
PART II

Y 4. IN 8/16:EX 7/11/PT. 2

Exports, Growth and Jobs-Reauthoriz...

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

MARCH 12, 1997

Printed for the use of the Committee on International Relations



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EXPORTS, GROWTH AND JOBS—REAUTHORIZING FEDERAL EXPORT ASSISTANCE PROGRAMS, PART II

TUESDAY, MARCH 12, 1996

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY
AND TRADE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2 p.m., in room 2200, Rayburn House Office Building, Washington, DC, Hon. Toby Roth (chairman of the Subcommittee) presiding.

Mr. ROTH. The appointed hour of 2 p.m. has arrived and we have some very important witnesses today with extremely important testimony that we want to share, not only with the witnesses here and with the Members of this committee, but with the entire Congress.

Today the Subcommittee completes its examination of the Export Assistance Programs for title. I think that the topic we have really says it all—"Exports, growth and jobs."

In earlier hearings, we have shown how exports are essential in economic growth and job creation. Last year over \$800 billion in exports accounted for 11 percent of our economic output. Twelve million American workers have jobs today because of exports.

Even more important, exports are the single largest factor in our continued economic growth. These are true and established facts.

In today's hearing, we will focus on the private sector's recommendations for OPIC, TDA and ITA. There have been many instances where many Members of Congress have asked if these programs are essential. We are going to have the answer to that question today. We will have to show how these agencies help our exporters and discuss the improvements needed to strengthen these programs.

I joined this subcommittee more than a decade ago and have pursued one goal above all; to help our exporters compete and win in the real world of global trade. Over the years we have built these programs step by step, but so have our competitors in Europe, Asia and Latin America.

This year I will bring legislation to the House to strengthen these programs even more. Trade will determine whether we continue to grow, whether we are going to have a healthy economy, whether we are going to provide jobs for the more than 40 million

young Americans who will join the work force in the next two decades.

So I look forward to today's testimony and to working with each of you on the legislation that we are going to be facing this year.

We are going to begin with Alden Warner and Winthrop Watson and Mr. Olin, all vice presidents of J.P. Morgan & Co.

Our witnesses will present the findings of a new study of an old idea. This old idea has been kicked around Congress longer than I have been on this committee and focuses on whether it is feasible or desirable to privatize OPIC.

This idea was studied twice in the Reagan Administration and found neither feasible nor desirable. Nevertheless, given the renewed interest, it is prudent to examine it once again. Today we are here releasing the J.P. Morgan findings for the first time.

And so I welcome Mr. Watson, Mr. Olin, and Mr. Warner to this committee and to Congress. Please proceed with your testimony.

Mr. Watson.

STATEMENTS OF WINTHROP WATSON, VICE PRESIDENT, J.P. MORGAN & CO., INC.; ALDEN Y. WARNER, III, VICE PRESIDENT, J.P. MORGAN & CO., INC.; DOUG OLIN, VICE PRESIDENT, DOUG OLIN & ASSOCIATES

Mr. WATSON. Thank you, Mr. Chairman.

I am Winthrop Watson of J.P. Morgan. Thank you for inviting us to address the Subcommittee on International Economic Policy and Trade.

In October, OPIC hired J.P. Morgan to analyze the feasibility of privatizing OPIC. Today we will present to you a summary of our work.

The team at J.P. Morgan was led by Alden Warner and me. I am the vice president in our Government Institutions Investment Banking Group, and Alden is the vice president in our Insurance Investment Banking Group. We have been assisted by Doug Olin of Doug Olin & Associates on budget scoring and policy issues.

As a format for our talk, we have provided a package of slides within our testimony. I refer you now to that material. And if you will go to page 1, we have an agenda.

As you can see from the agenda, we will present our conclusions first and then review OPIC in the market for its products. OPIC's financial performance and privatization and budgetary issues will conclude our talk.

As a preliminary comment, J.P. Morgan reviewed the privatization analysis from a private sector perspective, since potential buyers in the sale of OPIC would view OPIC from that perspective. Consequently, our review encompasses an analysis based on generally accepted accounting principles, GAAP. We understand that GAAP is not necessarily consistent with the government accounting. We will be addressing budget accounting issues at the end of our discussion. But if there are questions that arise between discrepancies between budget accounting and GAAP, we would be happy to explain how those discrepancies may or may not have affected our analysis.

As a starting point, moving to page 2, Alden is going to present our conclusions.

Mr. WARNER. Thanks, Winthrop.

I always like to lead with conclusions so that the Committee and the other audience will know where we are coming from.

On page 2 we highlight our four main conclusions from this study. The first is that the clean outright privatization of OPIC is not a viable alternative. And I think it is important to define what we mean by that, privatization whereby the government would wash its hands of OPIC and sever all future connections with OPIC. That does not strike us as viable.

Our second conclusion is that OPIC could be sold to public sector investors if the government provided meaningful ongoing support to the existing book of business and we will address what that support would entail later in the presentation.

The third conclusion is if that were a path that the government chose to pursue, that investors in OPIC would value it at a discount to its current book value. The current book value is \$2.5 billion. We think that investors would not place a value in excess of \$2 billion on that book of business.

And finally, the last conclusion is that in that context, the sale of OPIC would result in a net outlay from a budget perspective.

I will pass the floor back to Winthrop who will continue on page 4 of our slide presentation with a quick background on OPIC's basic businesses.

Mr. WATSON. A reminder of what is OPIC. OPIC is a wholly owned U.S. Government corporation that provides political risk insurance and financing to U.S. companies investing in emerging market economies. OPIC's mandate is to encourage private sector investment in a developing world while at the same time advancing U.S. foreign and domestic policy goals. OPIC's programs extend to over 140 countries and have generated in excess of \$43 billion of U.S. exports and created over 100,000 U.S. jobs during its existence.

Moving on to page 5, OPIC really focuses on two forms of business, two business lines, political risk insurance and project financing. OPIC's political risk insurance program covers U.S. investors for terms up to 20 years and can only be canceled by OPIC in the event of investor default. Policies offer protection against three major classes of risk: currency inconvertibility, expropriation, political violence. As we will see later in the presentation, political risk insurance is a fairly rare commodity.

OPIC's finance program provides several financing alternatives to U.S. investors: a medium- to long-term project finance in the form of loan guarantees; direct loans mostly to small businesses; and loan guarantees in support of investment funds.

With regard to page 6, who are OPIC's competitors and counterparts? All the G-7 and most developed countries have OPIC-like national agencies providing similar but not exactly comparable products. These competitors are organized, sometimes in umbrella organizations where the exact details of the agencies are hard to pull apart and to compare on an "apples-to-apples" basis.

But one point I would make is these non-U.S. agencies are less focused, we believe, on developmental objectives and financial performance than OPIC.

There are also several multi-national entities providing similar products on the political risk insurance side. There is MIGA, which is part of the World Bank Group. And on the project finance side, there is the World Bank and other regional development banks like the Inter-American Development Bank, the Asian Development Bank and others.

It is important to note that while they provide the same services that OPIC does, they are not in existence to support U.S. business. They are in existence to support an array of global objectives.

Mr. WARNER. Mr. Watson has covered the national competitors of OPIC.

On pages 7 and 8, we comment on the private sector. To talk about the private sector for political risk insurance, I would summarize it by saying it is a very limited market. As we summarize on this page, the availability of size does not compare with OPIC. There are those who say you can attain \$300 million of coverage if you go out and buy policies from a number of different market participants. OPIC provides \$200 million of coverage in one-stop shopping.

In terms of duration, the private sector has typically focused on no more than a 3-year exposure to emerging market economies where OPIC supports U.S. business. Again, that compares with OPIC's 20-year policy.

Most important, the private sector traditionally has not provided the breadth of coverage that OPIC provides. It is very difficult in the private sector to find coverage for currency and convertibility and for political violence, particularly in high-risk jurisdictions in which OPIC will write business.

And, again, OPIC's policies include all of these coverages in any jurisdiction where it does business.

Mr. WATSON. The private sector project finance is a much more highly fragmented market with a broader array of competitors. The primary ones are commercial banks who lend sporadically to emerging markets, investment banks which are a conduit to the fixed-income and capital markets investors, and other investment funds and institutional investors.

In less risky jurisdictions, the terms of coverage may be comparable to that of OPIC. But OPIC has been a consistent lender, whereas the commercial banks and capital markets move in and out of these markets depending upon perceived credit quality.

In the higher-risk jurisdictions, the private market is apt to avoid these markets and OPIC does not.

One interesting point about the growth of project finance globally is the growth projections, particularly for infrastructure projects are enormous and most of them require funding from multiple sources. They are multi-billion-dollar projects. And having government lenders such as OPIC in these projects, acts as a magnet to attract other private capital.

Mr. WARNER. I would like to briefly cover OPIC's historical and expected financial performance, which is one of the critical elements in reaching our views on the feasibility of privatization.

Turning to page 10, I believe we have a chart that also summarizes this information perhaps in a more user friendly fashion.

We take a look here at several key barometers of OPIC's historical performance over the last 10 years. On the left-hand side of the chart, you will see that the cash and investment portfolio is built up to about \$2.6 billion over the last 10 years; virtually tripling since 1985. At the same time, the reserve position or the money that they maintain in-house to protect against losses has grown to about \$2.5 billion.

On the right side of the chart, we show their net income, which last year hit a record \$189 million. And perhaps the most important sector of this page is the lower right chart, where we show the growth in their shareholders' equity; again, a generally accepted accounting principle. And the line shows the return on equity over the last 5 years.

I will make the comment that that return on equity averages 8.8 percent over the last 5 years. That is a pre-tax number, because OPIC is not a tax-paying entity. That compares with private sector returns on equity in the insurance business, averaging 13 percent in that same time period.

Mr. WATSON. Which is a post-tax—

Mr. WARNER. Which is a post-tax number.

On page 11, we show how OPIC's contingent liabilities, if you will, have grown during this same period in time. The bar chart here shows the growth in both the insurance exposure to claims and the outstanding finance book. Over the last 10 years, it has grown from \$3.6 billion to about \$7.6 billion.

It is also important to highlight here that at the end of fiscal 1995, OPIC had an additional \$3.6 billion of finance commitments outstanding but not yet disbursed.

Mr. ROTH. Would you mind speaking directly into the microphone? These mikes are voice activated and we get a better transcript if you speak directly into it.

Mr. WATSON. Sure.

Mr. ROTH. And this is very important for us to hear.

Mr. WATSON. OK.

Moving on to page 12, we work with OPIC management to create a forecast, if you will, a base case, which is really a snapshot of where OPIC's business might be expected to go over the next 7 years.

This forecast assumes ongoing government ownership of OPIC, really business as usual. And it reflects a number of items, the first being the existing book of committed business that has not yet been disbursed, that will be disbursed over the next 2 to 3 years.

It also reflects our assessment of global demographics, which in certain industrial sectors, power and telecommunications, in particular, you have seen 50 to 60 percent per annum growth in certain emerging markets where OPIC is active.

So when you look at the growth forecast over the next 5 years—practically a doubling of OPIC's cash and investment position, more than doubling in their net income; it is important to reflect upon the fact that we think reflects underlying demographics, not some sort of overly optimistic growth scenario.

It is also important to note that this is a very difficult business to forecast. The risk that OPIC undertakes day in and day out in its business are by definition catastrophic risks. We think this is

a reasonable snapshot but the prospect of a revolution or whatever could radically change this picture.

Having given a financial background, I would like to move on to our discussion of privatization issues and our conclusions with respect to privatization.

Turning to page 14, we put some meat on the bones of where I started, which is that a clean outright privatization of OPIC is not, in our view, viable. On page 14, we list those reasons.

First and foremost, there are \$7.6 billion of outstanding OPIC obligations, and each individual contract has the contractual obligation of full faith and credit. It is our view, and I think a simple factual matter, that the government cannot walk away from that existing book of business.

Second, we have mentioned that—well, without existing government support, the existing product line is not attractive, with certain exceptions, to private buyers. We have mentioned already that the private sector is not active, particularly in the political risk insurance market. Anyone looking at this business would really want to recast the way they write the business going forward, and that would put a definite cloud over the prospects for profitability going forward.

The third reason is that despite OPIC's tax-exempt status, its return on equity over the last 10 years, as we highlighted on this chart, has been quite low by private sector standards. Again, it is profitable, but whereas private insurers may wish to earn an after-tax return on equity in the 12- to 15-percent range, OPIC has averaged 8.8 percent pre-tax.

Finally, and we will talk in a moment about ongoing government support for a privatized OPIC, but it is our view that the government would have to provide meaningful support. In that context, if OPIC is sold to private investors, they will be tied to the government and they will not have the flexibility a private buyer would typically expect to receive with a property.

On page 15, we highlight some of the areas where we think the government would need to maintain its oar in the water, so to speak, with OPIC.

First, full faith and credit is an obligation on the existing book of business, and we think that the government would have to stand behind that.

Second, any buyer of OPIC will look at the reserve position. It is impressive. It has grown at a 14 percent compounded rate over the last 10 years. But there is a lot of exposure to the Newly Independent States of the Soviet Union, untested jurisdictions, and by its definition, this business is exposed to catastrophic losses.

So any buyer will expect the government to step in and protect them in the event that the existing reserves prove to be inadequate under future loss scenarios.

Third, OPIC has operated historically under the protection of bilateral agreements with host governments where they do business. We believe that private sector investors would expect the continuance of those agreements so that there would be a treaty basis for any negotiations producing losses for OPIC.

Finally, OPIC has, over its history, had currency salvage arrangements with the State Department when it has paid claims

and received foreign currency in exchange for that. It has been able to exchange that currency with the State Department for U.S. dollars. That is the salvage mechanism that has not historically been available to the private sector. It is one reason they have not written this business. And we think that those currency salvage arrangements would need to be maintained going forward.

On page 16, we talk about some evaluation issues and we expand upon these extensively in the body of our report. In summary, if the government were to provide support, we do believe that investors would value OPIC at a discount to book value. Again, the loss of full faith and credit we think casts a cloud on OPIC's future ability to grow as it has in the past. That is one reason.

Second, we think that private investors would scale back on the product lines. They would probably not write the 20-year policies. They would probably choose not to operate in certain jurisdictions where OPIC is active for State Department policy-driven reasons.

Third, we have talked about the returns on equity—which OPIC's historical returns have not been attractive by private sector standards.

Fourth, and this is important, there are no private companies which are in OPIC's business precisely. There are no comparable companies out there that trade publicly and to provide investors with evaluation benchmark. And in the absence of that kind of benchmark, we do believe that private investors would tend to look toward a discount to book value.

And finally, with respect to the discount, if the government sells OPIC, maintains full faith and credit on the existing book of business, and maintains some form of bilateral agreements and currency salvage, we believe it would be prudent from the government perspective to maintain an ongoing say in OPIC's day-to-day operations to be sure they are not off investing their investment portfolio in junk bonds, for example.

What that says is that any sale will entail a long-term partnership, and, again, from a private sector perspective, that hampers investors' flexibility, if you will, to maximize profits over the near term.

Mr. ROTH. Now we get to Mr. Olin, I take it.

Mr. OLIN. Yes.

Mr. WARNER. Mr. Olin will comment on the impact of all of this on the budget.

Mr. OLIN. Although the actual budget consequence will be determined by the specific details of the transaction and the budget and accounting procedures used by the Federal Government at the time of sale, under the scenarios we studied and in consultation with CBO and OMB staff, we determined that the budget effect of a sale is likely to be negative.

There are two primary elements to this conclusion. The first involves the budgetary effect of transferring OPIC assets to the private sector. To the extent that there is a difference between the purchase price for OPIC and the value of OPIC cash and Treasury securities transferred to the purchaser, this difference would likely result in a Federal outlay. This is because J.P. Morgan has determined the potential investors would target a material discount to

book value. In very rough terms, this discount to book value would be equivalent to the Federal outlay for this kind of sale.

The second element is the budgetary effect of continuing Federal obligations. The nature and extent of any continuing Federal contingent liability or any new government obligations to support the new private entity would impact both the budgetary treatment of the transaction and could entail additional outlays over time. Both OMB and CBO staff were very forthright in their position that they might treat this transaction indeed as something other than the sale of government assets and more akin to a government contract to manage the book of assets.

OK.

Mr. WATSON. That concludes our discussion, and we would be happy to take questions.

Mr. ROTH. Thank you for that excellent presentation.

I have not quite seen it done that way before, but I want to compliment you for the way you have presented your report. I think it is something we have to consider in Congress.

Basically, as I see it, your judgment is that OPIC is a well-run corporation.

Mr. WATSON. That is correct.

Mr. WARNER. That is correct.

Mr. ROTH. And self-sustaining financially.

Mr. WATSON. Correct.

Mr. ROTH. And that the reserves are adequate for our liabilities.

Mr. WATSON. We would see that you would have to have a catastrophic scenario to puncture the \$2.6 billion in reserve today.

Mr. ROTH. To use the dissenting view, is there any scenario under which OPIC could be sold without costing the U.S. Government outlays under our present budget rules?

Mr. WARNER. I think, and I may defer to Doug on this, but under current budget accounting, we understand that if you transfer OPIC's financial assets to cash and Treasury securities in its portfolio, for less than their face value, there would be an outlay.

Now, that begs the questions, sir, as to whether or not you could sell OPIC without transferring its investment portfolio.

I think the concern that we have with that is that any investor in this type of business would expect to receive those assets and have flexibility to invest them and manage them and earn the interest income from them.

So that if you were to sell the book of liabilities without the assets, the prospects of them earning any kind of suitable return on the business would be negligible and I think effectively you would be contracting someone else to manage the liabilities and they would probably charge the government a fee for that rather than paying them.

Mr. ROTH. Are there private interests that are lobbying for OPIC's privatization? And if so, what would their motivations be?

Mr. WARNER. There are private entities who would make an argument, and I realize this may be a sensitive argument, that the existence of OPIC and other national agency crowds out the private sector. And that is an area we spent some time researching in producing our report.

I think at the end of the day our sense is that there are no private sector participants, particularly in political risk insurance, who are committed to the business in a material way. If OPIC were eliminated perhaps there would be some cherry picking of their business in less risky jurisdictions. The real meat of the OPIC policies and where they provide value to the private sector in Gaza or Haiti or other politically sensitive areas would probably be a void that the private sector would not step into fill.

Mr. ROTH. Let me turn to my colleague, Doug Bereuter.

Thank you for coming today, Doug, to this very important hearing. I would like to ask you if you have an opening statement or if you have some questions for our witnesses.

Mr. BEREUTER. Thank you very much, Mr. Chairman. I do have an opening statement. I would like unanimous consent to make it a part of the record.

Mr. ROTH. Without objection.

Mr. BEREUTER. Thank you very much for holding the hearing today too. I think it is very valuable. The first testimony, of which I heard most of it, I think is a confirmation that some of the suggestions that were made rather quickly by people involved most directly in the budget process, upon examination are without substantial merit. Putting it bluntly.

And so, as I understand it, Mr. Olin, the bottom-line comments that you made were that the sale of OPIC would result in a net outlay under the budget rules that spring from our budget act.

Mr. OLIN. Under current Federal budget rules.

Mr. BEREUTER. Right.

I have always thought it is interesting when our Federal Government has responsibility for the conduct of foreign policy. If we conduct our foreign policy as we should, it has some impact upon the results that may exist for American corporations that invest abroad and that do business abroad. It should mean that there will be fewer opportunities for OPIC to come in and rescue a business because of some sort of a military or political action in that country. But if you leave it entirely to the private sector, it seems to me they have a very hard time in estimating what the risks are in an individual country. It depends so much not only upon the activities that take place in that country but how our government responds to them politically, what kind of preventive measures we take. And, therefore, if our government fails to take the kind of initiatives to avoid expropriation of property in a foreign country, then the result affects one of its quasi agencies, OPIC.

So I think there is some incentive, you might say, for keeping OPIC in the tradition of other developed countries, quasi-independent agency, within the Federal Government.

Is there anything you would like to comment about the difficulty of making assessments of risk, about investments in foreign countries?

Mr. WATSON. These kinds of risks are very difficult to assess. And I think that when you take a look at normal insurance or finance, many of the decisions are made based on statistical and historical background which gives the underwriter or lender comfort. In political risk insurance, as Mr. Warner mentioned earlier, we are talking now about potential catastrophic events which are not

statistical. And therefore the ability to underwrite with confidence, and we think without the help of the government to support the process, if there is a potential problem, is very difficult.

Mr. BEREUTER. What type of situations have caused the OPIC guarantees to be exercised most often? What categories of circumstances? Are we talking most about natural disasters? Are we talking about political instability, conflict? Or do you have it broken down in that fashion?

Mr. WARNER. Historically the largest number—and I am referring now to the insurance portfolio—since OPIC's inception, they have had claims totaling almost \$400 million from expropriation.

Interestingly, those claims have produced a net gain to OPIC of almost \$20 million because when OPIC has achieved recoveries over time, they have often been able to achieve interest on amounts previously paid.

Mr. BEREUTER. When did OPIC begin to function?

Mr. WARNER. 1971.

Mr. BEREUTER. Is there any one country where a significant share of these initial losses have taken place?

Mr. WARNER. Again, I am referring specifically to the insurance portfolio here, which I have the best statistics for.

Historically cash settlements have been the highest in Latin America, where there were a total of \$197 million of claims settled since OPIC's inception. The recoveries on that \$197 million by the time interest was factored in totaled about \$210 million, so that there was a small net gain.

Mr. BEREUTER. And the gain was approximately \$20 million?

Mr. WARNER. That is on the overall portfolio, sir.

Mr. BEREUTER. The overall portfolio.

Mr. WARNER. On expropriations, specifically.

Mr. BEREUTER. So this would have been, of course, before the Castro regime took power in Cuba. OPIC was not created at the time that Castro took Cuba.

Mr. WARNER. That is correct.

Mr. BEREUTER. If it had been operating, we would have had, I assume, one of the largest exercises of OPIC responsibilities at that time. We avoided that by not having an OPIC at the time.

Mr. WARNER. Yes.

Mr. BEREUTER. Now, Mr. Roth and I both have the opportunity to serve on two committees that have authorizing relevance to these programs since we both serve on the Banking Committee. We are aware of the fact that we created a few years ago the Multilateral Investment Guarantee Agency, which in some ways is a multi-lateral OPIC created as a component now of the World Bank.

Have you looked at the operations of MIGA? Does it give any indication of being a replacement or a partial replacement of national OPIC-like organizations?

Mr. WATSON. I think it is complementary to OPIC as opposed to a replacement. There are two different distinctions, one is that its services are available to all the World Bank members, not just to U.S. companies. And then a second distinction is that I think that their limit is \$50 million as opposed to \$200 million for OPIC. So on large-scale projects, it is not an effective substitute.

And one of the things that our research showed is that there is a continuing growth in large-scale, primarily infrastructure-related projects in the pipeline in the developing nations.

Mr. OLIN. If I can add, there are also a series of policy protections that are built into OPIC programs that MIGA is either not sensitive to or less sensitive to. For example, environmental concerns.

Mr. BEREUTER. Thank you very much for your work on the report and for your presentation here. I think it was a contribution to the public policy debate on the question of privatization of OPIC.

If I might say so, Mr. Chairman, I think somehow we need to convey the results to our colleagues in a fashion that they actually see and that has some impact.

I thank you for the hearing.

Mr. ROTH. Mr. Bereuter, I thank you for those comments. I think you are absolutely correct and we are going to do that.

Mrs. Meyers, Chairwoman Meyers.

Ms. MEYERS. Thank you, Mr. Chairman.

I am sorry to be late, and I would like to ask just a couple of questions.

I wish I had had more time to listen to your report or review it here, but I was reading just quickly and I think this is Mr. Warner and Mr. Watson's statement, and it says—you are talking about privatization and valuation conclusions. When you say that selling OPIC with ongoing government support could be an alternative to an outright privatization, what are you talking about? Like a GSE of some sort, some kind of a guarantee or what?

Mr. WARNER. We would suggest that there are a few areas. First and foremost, the government is contractually obliged to stand behind OPIC's existing book of business, which is about \$7.6 billion of contingent liabilities. So that it is our assumption that the government would have to contractually stay on that hook.

Going forward, for new business written, we think that any sale would entail a very intense negotiation with private sector buyers. And that certainly the private sector would hope to receive some ongoing support for foreign currency exchange, currency salvage, if you will.

We think that they would expect to see the maintenance of bilateral agreements that are currently in existence. And there could be a host of other areas that would be fairly intensely negotiated if the sale were pursued.

Mr. WATSON. I think it is fair to say that those attributes would make it parallel to some of the attributes that the GSEs currently have although they would not be carbon copy requirements.

Ms. MEYERS. I do not understand this statement either and maybe you can clarify it for me.

"Potential investors in a privately owned OPIC with ongoing government support would likely value the business at a discount to its current book value."

So clarify that for me.

Mr. WARNER. As Mr. Watson had mentioned, we approached the valuation and privatization analysis from a private sector perspective using generally accepted accounting principles. And by book

value, our meaning is the shareholders' equity, if you will, which would be OPIC's net assets, total assets minus liabilities.

And it is our view that based on a number of issues raised in the report, that people would pay less than OPIC's current book value of \$2.5 billion for the privilege of ownership.

Now, to put that in perspective, private sector insurance companies that trade in the stock market generally trade at some multiple higher than one, in excess of book value, maybe one and a half times book value.

Ms. MEYERS. Has anything changed in recent years about the support that we give and that OPIC gives in areas where there is a fragile environment?

Mr. WATSON. I think that in the last few years, there have been a couple of changes in OPIC. One is related to the size of the policies and financings that they will provide, which now I think are \$200 million for insurance, \$200 million for financing, with a maximum of \$400 million for each project.

That is an increase, so each project is larger, and so there is somewhat more exposure to particular projects. And then as the world has developed, there has been a transition to lending in countries that are now becoming more developed. And so there has been a growth most recently in providing amendments to projects in the ex Soviet Union.

Ms. MEYERS. Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Chairwoman Meyers.

As a private company, could OPIC maintain its presence in all the exporter countries it now helps, or would they have to withdraw from some of the countries?

Mr. WATSON. We think that they would choose to withdraw from some of the countries because the risk in some of the countries without the benefit of the government as a tool would appear too high to accept.

Mr. ROTH. One of our colleagues, Mr. Brownback, has joined us. Do you have any questions?

Mr. BROWNBACK. I am sorry to join you late, and I appreciate the work that you do.

One question I have is have you considered or looked at, as either part of this study or otherwise, merging some of the international finance, export functions, such as with Eximbank? I mean have you even considered that, or have you, Mr. Warner, done any other studies, looking at Eximbank in a similar light as this one, and are there any synergies?

Mr. WATSON. At J.P. Morgan we have not looked at Eximbank closely enough to make parallels with OPIC.

Mr. BROWNBACK. Or any sort of merging ability with OPIC and Eximbank into one entity?

Mr. WATSON. We did not look at it.

Mr. BROWNBACK. OK.

Mr. ROTH. Thank you. Thank you very much, gentlemen. We appreciate the excellent testimony. It is going to help us a great deal.

Mr. WATSON. Thank you.

Mr. ROTH. Next we will hear from two executives of companies which have consistent records of success in global markets, William Trammell, the vice president of Fluor Daniel, Incorporated, and

James Cox, director of Trade Finance at Northrop Grumman Corporation.

And, in addition, our witnesses present two organizations which have outstanding records of leadership and advising Congress on trade policy, the Coalition for Employment through Exports, and the National Foreign Trade Council.

So we look forward, gentlemen, to your testimony and maybe we can ask you some questions after you have given us your testimony.

Mr. Trammell.

**STATEMENT OF WILLIAM D. TRAMMELL, VICE PRESIDENT,
PROJECT FINANCE, FLUOR DANIEL, INC.**

Mr. TRAMMELL. Thank you.

My name is Bill Trammell. I am vice president, project financing, at an engineering and construction company, Fluor Daniel.

Today I am testifying on behalf of the Coalition for Employment through Exports. My testimony focuses on four points and these points are related. I think as we could reach agreement on each one, it will lead us to the next.

My first point is that exports are good for the United States. And I believe the Chairman's opening remarks address this and we are already in balance on seeing the value of exports to the United States.

My second point is that U.S. firms do need governmental support. My company is quite capable of taking on a competitor, whoever they are, domestic or international. What we cannot do is take on a competitor with the help of his host government. And in today's market, we simply cannot beat competition without the sort of help the TDA and OPIC and even Eximbank are giving.

My third point is that TDA and OPIC are very unique in Washington. They are very small, cost-effective organizations. They are doing a tremendous amount of good for a very little bit of exposure to the taxpayer.

Let me give you a couple of examples. My company often does feasibility studies. And our clients pay us to do these things and we do not like to do them because only about one in ten feasibility studies results in an ongoing project.

Now, TDA funds feasibility studies and they are so selective, the ones that they fund, their record is about one in three which go on to ongoing projects. I wish we could get more of the ones they pick out.

In OPIC, we have an organization that is small. It is about 180 people. They are not using the taxpayers' money, they are contributing about \$100 million a year to reduce the deficit.

So my third point, in summary, is that we have got two organizations here who are accomplishing the goal of helping my company and my U.S. competitors take work away from our international competitors being assisted by their governments.

The fourth point is what can you do to help to continue this positive performance? Well, we ask that you reauthorize OPIC. Let them continue, and we would ask that this reauthorization be on a 6-year basis. We also ask that you authorize TDA to continue.

Certainly budgets are always a question. TDA is grossly underfunded. I think they had some \$58 million, including a transfer last year. They could easily use twice that. And I believe in my testimony we call for \$100 million.

The budget said OPIC could be adjusted upwards. They are using their money wisely. They are prudent insurers. And we think they deserve a chance to extend their reach a little bit. I leave it up to you and to the staff of OPIC to decide how much that should be.

Finally, I have some housekeeping items. OPIC is actually under the auspices of another agency, who exists on paper but, to the best of my knowledge, has no staff. This is called IDCA. And I would love to see that agency abolished. I would love to see the OPIC presidency expanded to be a chairmanship of OPIC. And let us do a little housework and clean up the bureaucracy involved there.

Finally, I would encourage you to think about giving the OPIC staff a little bit more flexibility. They earn their own expenses. They are not paid out of a Federal budget. Give them a little bit more freedom to decide how they spend their money and what their staffing needs are.

This is the end of my prepared remarks.

Mr. ROTH. Thank you very much, Mr. Trammell, for your testimony. We appreciate your comments.

We are going to ask Mr. Cox for his testimony and then we will ask you a few questions, if we may.

Mr. Cox.

STATEMENT OF JAMES S. COX, DIRECTOR, PROJECT TRADE FINANCE, NORTHROP GRUMMAN CORPORATION

Mr. Cox. Mr. Chairman, I have prepared written testimony which I would like to submit and just summarize the remarks at this point in time.

Mr. ROTH. Without objection.

Mr. Cox. Thank you.

I would be remiss before I start if I did not convey to you when we were putting this testimony together, we contacted a number of members of the National Foreign Trade Council and uniformly they wanted us to express their disappointment that you were leaving Congress and retiring at the end of this term. They wanted to particularly thank you for the leadership that you have exhibited and how important this is to American jobs and to American corporations.

Mr. ROTH. Well, thank you.

Mr. COX. So we wish you well and whatever you choose to do in the future, whether spending more quality time with your family or root for the Green Bay Packers—

Mr. ROTH. Or both.

Mr. COX. Or both. Great.

Mr. BEREUTER. Would you let me interject here and say that that is true, the Subcommittee, on a bipartisan basis, and that sentiment is expressed in my written statement, but I am glad you brought that up, Mr. Cox.

Mr. COX. OK. Thank you.

Mr. ROTH. Thank you, Mr. Bereuter.

Ms. MEYERS. I would certainly add my indorsement of your remarks also. It does not seem bipartisan here today. We just have Republicans. But I strongly support what you are saying.

Mr. BEREUTER. We are on both sides of the aisle now.

Ms. MEYERS. That is right. We are on both sides.

Mr. BEREUTER. We retain voter control as you can see.

Mr. ROTH. Continue, Mr. Cox.

Mr. COX. Thank you. I am the director of Project and Trade Finance for Northrop Grumman, and until recently I held the same position with Westinghouse Electric.

It was interesting, Mr. Chairman, to hear you summarize the statistics that support exports in this country. And hopefully we are not here to debate how important exports are for the people in the Congress, understand that.

And I will just cite a couple of quick figures. 1988 to 1994, 50 percent of the economic growth of this country was related to exports. And on average, 13 percent higher are the wages paid to people that are involved in companies that are, in fact, exporting.

So there are all sorts of statistics and I think clearly the importance of export should not be really what the debate is. It is how effective can we be and what support and direction and guidance and oversight can the Congress give to this effort. And I think those are the issues that we are really here to discuss.

And I think as part of that, one of the really important points is market share for all corporations. And it is our strategic objective, because once you can gain market share, you can really build on that. But once you lose market share, it is next to impossible to replicate.

We are really talking about organizations here that are the cornerstone for American corporations to be able to get appropriate market share in what is now the economic competition that we have entered into with our foreign competitors.

I think it is important for us to understand that no U.S. corporation should expect a subsidy or handout and we are not asking for that. Clearly U.S. companies need to compete on the basis of price, quality, delivery, all the good things that we can do. But what we need to do is have a level playing field in order to be able to do that. And it is one thing for us to compete against foreign companies. It is another thing to expect us to compete against foreign governments. This is the important issue as we pursue that.

I would like to make a few comments about the TDA (Trade and Development Agency). And clearly their role, which is important, is to position us to get additional business. The issues that they bring, and really one of the key ingredients which is often overlooked is that this is done under the banner of the U.S. Government. It would be one thing for individual companies to try to go and participate in early lead-on feasibility studies. Here the U.S. Government is opening these markets, allowing these feasibility studies to take place, allowing reverse trade missions to take place, which really contribute to the ability for us to get business.

And as part of this, the written testimony, you will see we have cited several examples from companies that are members of the National Foreign Trade Council. Parsons and Black and Veatch and McDermott. And if you read those stories, you will see each

one of those absolutely believe that they would not have participated in the ongoing business had it not been for TDA's involvement. They do not think that there would be the possibility for them to even have bid or be involved in that transaction unless the U.S. Government had sponsored that initial point.

And I think that is a point that needs to be emphasized. This is not something that companies could do on their own or do for themselves.

As part of that, I think both agencies have devoted a great deal of effort to small business, to allow small business to increase their opportunities. Both TDA and OPIC have played exemplary roles in trying to do that.

One of the recommendations, and the key recommendation that we are making relative to TDA for the coming year. We understand how difficult and tight budgets are. Upward America is downsized, resized, refigured.

The issue though is clearly if you can pick something that can leverage a small investment and is a winner, TDA is that. And the National Foreign Trade Council and its membership feels very strongly that this is one agency that is under-funded, has a terrific return on an investment, and one of the recommendations that we are making is that this agency in fact could legitimately spend and use and need \$100 million for fiscal year 1997. That is a key recommendation relative to TDA.

Relative to OPIC, clearly this is the cornerstone organization for investing in the emerging economies. There is demonstrated through OPIC's participation, really the U.S. commitment for economic growth, political freedom, and stability in these economies.

Mr. Chairman, the remarks from the panel previously about OPIC being well-run, about OPIC being self-sustaining. Here is an organization in 25 years that every year has had a net return and a net profit. It is an organization that we have also heard relative to the J.P. Morgan testimony this morning that is absolutely unique in the terms that it offers, the duration, the coverage, and the flexibility.

Those types of terms are not replicated in the private market. So we are looking at a unique institution, a profitable institution, an institution which opens the door for U.S. investments to follow on exports and is something that is costing the taxpayers nothing.

So, can this be replicated in the private sector? The answer is no. So it is important for OPIC to continue.

There are three recommendations though that we would like to suggest relative to OPIC. Its charter, as you know, is up for renewal on September 30th. It expires. One of the things that the National Foreign Trade Council would like to advocate is a 5-year renewal of the charter. We think that would be consistent with the renewal that was given to Eximbank. We think that the areas that OPIC are involved in, the long-term projects, planning, et cetera, lend a need for it to be chartered and authorized for a minimum of a 5- to 6-year period.

Second, we would also call your attention to perhaps the ceilings will have to be increased relative to the extent of the charter. So that is an issue that OPIC can certainly advise relative to how quickly coverage comes off and how business will grow.

And finally, we would join CEE and others in the export community and recommend that the current president of OPIC also be the chair of OPIC. This would be consistent with two things. One is the way Eximbank is organized. And second, I think it is a recognition of what their mission is. When OPIC first started, foreign aid and development was the key mission. Now you are really looking at OPIC as being a tool of economic policy, increase exports. We think that flexibility is the same that exists at Eximbank, would help the agency carry out that mission.

Mr. Chairman, thank you, and I would be delighted to answer any questions that you may have.

Mr. ROTH. Thank you very much, Mr. Trammell and Mr. Cox.

Mr. Cox, let me ask you a question. You had high praise for TDA, the Trade and Development Agency.

Does it provide an entree for these big projects? In other words, continuing business down the line.

Mr. COX. Yes, absolutely, Mr. Chairman. And I think the key thing here is once you get market share and develop that, there is all sorts of ongoing business that does not require this level of support necessary and can be done on normal economic terms. But clearly the door opener, the institution that can position us under the banner of the U.S. Government is TDA. There is nothing that can replicate that in the private sector.

Mr. TRAMMELL. Mr. Chairman, may I give an example to that?

Mr. ROTH. Yes, please.

Mr. TRAMMELL. In Indonesia, there had been no non-Japanese companies taking any of billions of dollars of hydrocarbon processing business for a decade and TDA provided my company with the opening wedge to break back into that market.

Mr. TRAMMELL. And the project that we won with their support was \$633 million.

Mr. ROTH. Let me ask you, Mr. Trammell, from your viewpoint.

You heard in earlier testimony about OPIC. You were in the room here.

Mr. TRAMMELL. Yes, I was.

Mr. ROTH. What is the view from the exporting sector on what we should be doing? Privatize OPIC or maintain its current status? What kinds of changes would you like to see?

Mr. TRAMMELL. Mr. Chairman, to my knowledge, there is no similar institution in the private sector now and the very absence of that type of institution argues that the private sector is not interested in that business, and would not be without such a great amount of government support that you might as well just keep it in the government to begin with.

Mr. ROTH. Mr. Bereuter, do you have some questions for our witnesses today?

Mr. BEREUTER. I do. Thank you, Mr. Chairman.

Mr. ROTH. Please proceed.

Mr. BEREUTER. Mr. Trammell, in light of a comment you made about the funding of the TDA. Our appropriator colleagues have recommended requiring TDA to impose what they call success fees. An Appropriations staff member has suggested additional cuts for TDA for fiscal year 1997 of \$15 million minimum unless we can show cause why such cuts are inappropriate.

In your judgment, would it be appropriate for TDA to impose these so-called "success" fees on U.S. businesses which receive contracts after the TDA-funded feasibility studies are conducted and so-called "success" occurs?

Mr. TRAMMELL. I would welcome success fees. The danger in the performing of a feasibility study is that the project never develops. And there is no cash flow. Once a project develops, the person who enjoys the benefit of a successful feasibility study, within reason, I think should be willing to reimburse the government.

Mr. COX. Congressman, there is one other point to that which I think Bill is following on here.

Currently there already is cost sharing at TDA on feasibility studies. So the large feasibility studies that are being done, I can tell you from Westinghouse's experience—

Mr. BEREUTER. This was not a suggestion of cost sharing though.

Mr. COX. No, but there is cost sharing and also on the success fee, TDA has talked and is looking to implement that, I agree, but both of those would in no way provide the necessary fund relative to, you know, getting this organization in a position to meet the current demand. That is really the issue.

Mr. BEREUTER. I tried to get additional funds for TDA, as various Members of this subcommittee have in the past, as recently as last year and ran into appropriators that do not apparently see as much value in TDA as compared to competition sources of assistance as we do.

What would you suggest in the way of a defense against a proposed \$15-million cut which is being threatened?

Mr. TRAMMELL. I would say look at the tremendous success of TDA. The more money you can put out and get a 30 times return on the better off you are. They are nowhere near a level of saturating the good work they could be doing. So to simply cut their budget is to simply constrain the exportability of the work they could be doing.

Mr. ROTH. If the gentleman would yield?

Mr. BEREUTER. I would be pleased to yield to the Chairman.

Mr. ROTH. Mr. Bereuter, we congratulate you for the work you are doing in this area. TDA is successful in winning one out of three business projects for U.S. exporters. That is a terrific rate that gives us a \$29 return for every dollar invested. You cannot do too much better than that. Thank you.

Mr. BEREUTER. I thank the Chairman for his statistics. I may need your help on certain staff members that work for Mr. Callaghan.

Gentlemen, could you cite specific examples of U.S. sourcing losses due to foreign competition and foreign government support?

Mr. COX. Absolutely. You know, we could do it relative to specific bids that we have been involved in, the use of the war chest, where there has been mixed credit competition and that has not been delivered. We can go through exactly project by project.

Mr. BEREUTER. When will you be willing to do this for us?

Mr. COX. We would be glad to submit written testimony to you or written statements.

Mr. BEREUTER. With specific firms—

Mr. COX. With specific jobs—

Mr. BEREUTER. And projects and dollar amounts, estimated dollar amounts?

Mr. COX. We would welcome that opportunity, Congressman.

Mr. BEREUTER. Great. I think that would be helpful to the Committee.

Mr. COX. We will do that.

Mr. BEREUTER. The sooner the better, in light of the appropriation process. It is unfolding again.

Mr. COX. The other point too, Congressman, to your earlier question about how do you support not cutting, in effect, the TDA appropriation?

You know, it really amounts to unilateral disarmament. Japan, for instance, is spending \$250 million minimum a year on these types of activities. You look at every other competitor as a percentage of GDP. They are expending more money on similar activities that TDA is doing.

Mr. BEREUTER. I understand.

Mr. COX. And rather than try to alleviate and see that there is not this competition, here you are having in fact other governments that already recognize this is a very effective way to get business for their countries. And the issue is are we going to have similar support or will countries accede to the fact that they should not be having this type of support. The issue is obviously they look at this as a great investment and by us unilaterally disarming, it is only going to encourage them to keep doing it.

Mr. BEREUTER. Thank you.

I know that this hearing has focused on OPIC, but I do want to bring up an Eximbank example because of you gentlemen's experience and expertise with this agency.

I recently heard an allegation from a major U.S. energy producer that they may source \$200 to \$300 million dollars in products from Europe because Eximbank is becoming too "unreliable."

We have recent examples of the Three Gorges project and possible nuclear sanctions. I am told of late midnight hour increases in interest charges. And, we are operating with an acting chairman over in the Eximbank. In addition, Secretary Christopher sent around a letter telling the Eximbank to cut off the use of Eximbank project resources for projects within the Peoples Republic of China because at this point there are suggested proliferation violations between the Peoples Republic of China and Pakistan, although the evidence has not yet been released about that, if it can be released.

Of course, Secretary Christopher does not have the authority to do that under the law. Only the President can do that. It may be placing an acting director or acting chairman, in a very difficult position to resist that. When you begin to have this kind of political pressure brought to bear on the Eximbank board and chairman, there is no end to how far this kind of political pressure can be applied. Then we begin to raise questions about reliability and you can see why foreign sourcing, or selecting simply a competitor from a different country would result.

Is Eximbank becoming unreliable? Is OPIC in any fashion becoming unreliable? Are they dependable? Are they following the statutes? Are they predictable?

Mr. TRAMMELL. Let me start with an answer to that, and perhaps Mr. Cox would like to add to it.

But Eximbank has become increasingly reliable and predictable.

Mr. BEREUTER. Eximbank is becoming increasingly reliable?

Mr. TRAMMELL. Yes. I recognize what you are saying—

Mr. BEREUTER [continuing]. surprise.

Mr. TRAMMELL [continuing]. about political pressure on Eximbank which is certainly noticeable, but if you look through that at the core of the performance of the bank, I think they have strengthened greatly in the last several years. And let me give you one little example of how much they are admired by their competitors.

I had lunch with the chairman of the Dutch Export Credit Agency 2 weeks ago and he said, "I am trying to do with NCM what Brody did with Eximbank. I want to make us a leader in project financing."

Mr. BEREUTER. Well, Mr. Brody is gone.

Mr. TRAMMELL. I understand that. But his shadow is still there and I think Tino (Kamarck) is doing a very reasonable job of continuing the work that Brody had started.

Mr. BEREUTER. We just have a moratorium, regardless of the merits. Secretary Christopher does not have that authority under the law. Only the President has that authority.

Mr. TRAMMELL. Mr. Congressman, I do not argue—

Mr. BEREUTER. And he did not indicate that he was speaking for the President, gave no evidence that the President had made that decision.

Mr. TRAMMELL. I do not argue with that at all. I take exception where there is political influence. I am talking about the majority of the bank's activities. In the creation of the project financing group, the bank took a tremendous step forward. And where they had only been doing perhaps one transaction a year, before last year, in the first year of their project financing function, they did eight.

I agree with you that political pressure is causing distortions in the bank and may cause them to be seen more unreliable by some client.

Mr. BEREUTER. Mr. Trammell, thank you for your comments. You walked through that very carefully and very well.

Mr. TRAMMELL. Whew.

Mr. BEREUTER. Mr. Cox, do you have anything you would like to say?

Mr. COX. No, I think maybe just a bit of a clarification for our understanding.

At our last meeting Tino Kamarck came and addressed the National Foreign Trade Council, the Export Finance Committee. And this was right at the time that Eximbank declared that for 30 days that they would hold the current applications and would at the expiration of that period allowing other agencies of the government, for instance, the State Department or others, to comment relative to the policy on China. And I would assume that they would also seek congressional input relative to that. And that in fact was what was happening from Kamarck's point of view, from the Eximbank's

point of view. That they were stepping back looking to see what was happening.

Clearly the members of the National Foreign Trade Council take the view that it is very important, and I think this is what you are suggesting, Congressman, that there be transparency in all the programs at the bank, and there be a certain consistency so that not only the customers but the exporters understand what those policies are, that they will be evenly administered and we can rely on that so that we are finding that U.S. companies are not going to have to go and source in other countries or take advantage of other programs.

Mr. BEREUTER. Well, thank you.

Mr. COX. So I think it is an important theme.

Mr. BEREUTER. I am worried about the transparency. More, I am worried about whether or not undue, improper and illegal pressure is being brought on the Eximbank. If it happens in this instance, it can happen in others. And we have two recent examples of where it seems to have been applied when the President has not taken a position on the issue. And that is what the law, I believe, requires.

Mr. TRAMMELL. We certainly share that concern.

Mr. BEREUTER. Thank you, Mr. Chairman.

Mr. ROTH. I think it is important to point out that by suspending Eximbank in China singlehandedly, Secretary Christopher stopped some 1½ billion dollars' worth of exports to China. So it does have quite an impact.

Mr. Brownback.

Mr. BROWNBACK. Just briefly.

You gentlemen have a lot of experience dealing with export financing, international financing.

Do you see any advantages or disadvantages or ways you would reconstruct the overall tools that the Federal Government has at its disposal to finance this? Would you merge any of these entities together to give yourself a little better latitude to work with?

Mr. COX. You know, this is an issue that has been periodically looked at and discussed.

Mr. BROWNBACK. Right.

Mr. COX. I think based on the current records of each of the major institutions we are talking about, OPIC and TDA and Eximbank, they have a unique role and they are complementary. They are not competing with each other. There is not overlapping of programs. And I think there has been an improvement the way they have actually worked together to see that exports take place. And that since each of them have carved out and have a special area and the programs are specialized, and complementary but not overlapping, that it is difficult to see where such a combination would in fact increase the efficiency of any one of those particular agencies. In fact, they may lose focus on what they really do well currently. That has been the concern.

Mr. BROWNBACK. How many of those entities do you use or your company use?

Mr. COX. Essentially all three are very important.

Mr. BROWNBACK. Mr. Trammell, do you use all three of them?

Mr. TRAMMELL. Yes, sir. And I agree that these are very unique organizations. You just cannot find very many places with spirit of that small team at TDA. Putting them together with any other organization is going to dampen that real pride of what they are doing. And I think whenever you begin to combine organizations with dissimilar functions, you lose focus and you start getting bloated staff.

Mr. BROWNBACK. But let us say you are doing a big project somewhere around the world. Would it be typical that you would only work with one of these entities or with two, or would you typically work with all three on that project?

Mr. TRAMMELL. From my testimony, you will find an example where we worked with two of the three on the same project.

Mr. BROWNBACK. Is that typical or atypical?

Mr. TRAMMELL. It is not typical because generally we do not go through the feasibility study stage with every project. So for those projects where we do go through a feasibility study, it is typical to find Eximbank following TDA. And I believe there is about a 30-percent coverage of Eximbank on some of the feasibility studies that TDA does.

Mr. BROWNBACK. Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Mr. Brownback.

Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much.

Welcome. And I am sorry that I missed the first half. I was at a press conference in which we were making sure that the Communist regime in Beijing understands that if it uses force against Taiwan that there will be dire consequences.

And unfortunately we have been financing so many projects in China, they do not seem to have the message that we mean what we say nowadays.

I want to get into that in a moment. But first let me understand something. You folks know more about it than I do.

It says here that OPIC, since its founding, has supported investments that have generated in excess of \$43 billion in U.S. exports and more than 100,000 domestic jobs.

When we are talking about investments that OPIC supports, are we talking about supporting the purchase of U.S. exports or are we talking about the supporting of an investment by a U.S. corporation in creating a manufacturing unit?

Mr. TRAMMELL. Both.

Mr. COX. Both.

Mr. ROHRABACHER. Both.

What is the proportion, for example?

Mr. COX. Well—

Mr. ROHRABACHER. I mean, for example, if your company wants to sell airplanes, I could see where there is an argument for the taxpayer to say, "We want to facilitate the sales of those airplanes because those guys over in France are facilitating sales of their airplanes."

Mr. COX. Right.

Mr. ROHRABACHER. What I am beginning to look at and I think that when the American people find out about this, there is going to be a volcano erupting in this country, is that we have been fi-

nancing the investment in other countries in order to create businesses that will compete against our own people.

Is that right?

Mr. COX. No, I do not think it is correct.

Mr. ROHRABACHER. Tell me where I am wrong.

Mr. COX. Let me see if we can help each other out in our understanding—

Mr. ROHRABACHER. Go for it. I am ready.

Mr. COX. OK, good. First of all, essentially there are three programs. There is the insurance program, which is ensuring political risk and convertibility of currencies, et cetera. An important thing at OPIC.

Mr. ROHRABACHER. Sure.

Mr. COX. And there is the project finance aspect, which is really supporting projects to which U.S. companies are exporting products around the world into.

And the third there is investments by OPIC in equity funds, particularly those funds which are encouraging U.S. policy to have emerging countries, particularly in the Newly Independent States, to privatize businesses and to develop sound economic underpinning to go along with those businesses.

Mr. ROHRABACHER. Let me be specific before you go on.

Mr. COX. OK, sure.

Mr. ROHRABACHER. I saw evidence recently of a new mine that was being laid throughout Southeast Asia, a land mine. And this land mine actually has a brain of its own, you know, so that if you touch it in trying to disable it, you are trying to diffuse the mine, it will understand what you are doing and blow you up.

So they finally opened one up. They finally got one opened, and there was a Motorola chip inside the land mine. And the Motorola chip was built in the Motorola factory in China.

Are we building Motorola chip factories in China with guaranteed tax dollars?

Mr. COX. I would presume that Motorola would be able to provide you with the specific details, but I am sure that is not the point.

Mr. ROHRABACHER. Does your company have a manufacturing unit that it has built in China with the use of taxpayers' dollars? Now, I understand completely when you are trying to say export jobs. There are 100,000 domestic jobs created and these things are aimed at exports.

I understand that. That is fine. I think the American people can understand we have got to compete. But we are not talking about subsidizing the wheat sale here, and a lot of times the people who wanted us to normalize relations with Vietnam, I am convinced were not trying to normalize relations with Vietnam in order to sell American products. They wanted to normalize American relations with Vietnam in order to have our taxpayers guarantee their investment in companies which would then compete with their own people.

Show me where I am off base.

Mr. TRAMMELL. Congressman Rohrabacher, I certainly appreciate your concerns, but let me turn to an example from my company's experience.

Mr. ROHRABACHER. Sure.

Mr. TRAMMELL. We do not manufacture anything, by the way. We are a service organization.

Mr. ROHRABACHER. Right. A great company in Southern California.

Mr. TRAMMELL. Thank you very much.

In my testimony you will find an example of the Paiton Electric Power project where OPIC provided \$200 million of insurance as well as \$200 million of funding.

Mr. ROHRABACHER. Yes.

Mr. TRAMMELL. This country does not export electricity. That project provides electricity for the infrastructure development of Indonesia.

And I think if one looks across OPIC's experience, you will probably find that more of their business insurance has gone for that type of project than something as heinous as building a chip that serves a land mine.

Mr. ROHRABACHER. Well—

Mr. COX [continuing]. even open in China. I mean I think we should make that point.

Mr. ROHRABACHER. What I have got to do is I have got to get some statistics on this as to how much of our money of the Eximbank or OPIC, or there are about five or six other organizations, are actually being used—how much money of that is being used to create manufacturing units overseas as compared to selling American products overseas? And we need to know that. Because I do not think that the American people are going to sit idly by and watch our tax dollars being used to create basically competition for our own people's jobs.

Now, let me ask you on another area, because this goes directly to Fluor and it goes directly to the Three Gorge Dam project.

Mr. ROTH. Would the gentleman yield?

Mr. ROHRABACHER. Oh, sure. I am sorry for taking up so much time.

Mr. ROTH. No problem. I was just going to mention that 4 years ago this subcommittee was very concerned about what you are mentioning, Mr. Rohrabacher, because, like always, you are right on target. We amended OPIC to prohibit any assistance that would cost U.S. jobs.

I do not know how that is being enforced, but that is part of the OPIC implementing legislation.

Mr. ROHRABACHER. OK. When we are talking about infrastructure improvements, which is the example you just gave, and the Three Gorge Dam project as well, first of all, is there some reason why American capital has to be used to finance these, or at least to guarantee these infrastructure projects?

Let me give you an example. Indonesia is very rich in capital in the sense that it has got huge oil wells and a lot of hard currency. China, and the Three Gorge Dam project, they have \$40 billion in hard currency and a surplus in their trade relationship with us.

Why should they not use those resources to build those particular infrastructures rather than the taxpayers do this?

Mr. TRAMMELL. Well, let me skate past Three Rivers because I really do not know anything about the project.

Mr. ROHRABACHER. All right.

Mr. TRAMMELL. My company has not been involved.

Paiton in Indonesia was the first example of the Indonesian Government privatizing its power business. The government said, "Look, enough is enough. We can only stretch our national budget so far. We invite private investors to come to our country and build a power plant and we will buy the power from them if they will sell it at a reasonable cost."

Mr. ROHRABACHER. I see. So this is actually not going to the government. You are actually just dealing with a private company. It is a relationship between the private company——

Mr. TRAMMELL. That is right. There are two U.S. owners, an Indonesian owner, and a Japanese owner.

Mr. ROHRABACHER. I got you. OK.

Mr. TRAMMELL. And without the help of OPIC, the United States would not have been an equal owner to the Japanese. And you know what would have followed from that.

Mr. ROHRABACHER. Go ahead, Mr. Cox. You want to jump in here somewhere I can tell.

Mr. COX. No. It is interesting to hear the questions, and I think the key fact, just as you said, Congressman, the issue is American jobs. And I can tell you—as an example, you talked about Eximbank and are we financing——

Mr. ROHRABACHER. Right.

Mr. COX. Eximbank only finances U.S. exports. It has to be produced in this country by American workers for export overseas. So the issue is clear. And I can assure you that on the projects where Eximbank is offering finance, our competitors, the French and the Japanese and the Germans, go to their equivalent agencies, offer equivalent and in some instances even better finance to the purchaser of those products.

And the issue really is in the absence of having Eximbank support, there would not be a possibility for us to gain that business.

Mr. ROHRABACHER. But let us look at—peel the onion back——

Mr. COX. And the capital markets would not support that type of terms.

Mr. ROHRABACHER. Let us peel the onion back.

Mr. COX. Sure.

Mr. ROHRABACHER. Which is of course important to your particular company, and both of you represent great companies and I know both of you have fine products and do a great job and we are all proud of you.

The money for your company that you end up with because of this project is in essence being financed or at least being guaranteed by the taxpayers back here somewhere, in what we are talking about. Without it, it is not going to work.

You know, I ride around our country nowadays and I seem to see a lot of infrastructure projects that we need to have done right here. When you are talking about an \$11 billion project for this Three Gorge Dam project.

Now, I understand \$11 billion will be spent over there and then come back here for the American companies that are involved. I understand that. But would it not be better if we are going to have to guarantee or at least help provide that kind of money that we

should be building \$11-billion worth of infrastructure that we sorely need in the United States of America?

Mr. TRAMMELL. If the budget were there and if the projects were available, we would certainly enjoy building them.

Mr. ROHRABACHER. So it is because the guarantee is there and they are able to use their money but it is our guarantee that makes that happen. Even with a guarantee here, it would not happen.

Mr. TRAMMELL. That is a statement that could really lead on to such complexity. I do not think we would finish it this afternoon.

Mr. ROHRABACHER. Well, I am trying to get a grip on this because I really am concerned that—I mean that really opened my eyes when I see a Motorola chip that is made in China from an American company that has built a manufacturing plant ends up in a new kind of land mine to terrorize the world. And obviously something is wrong there, and we end up with Beijing now is threatening Taiwan for having a free election. They are using their \$40 billion in surplus to build an incredible military might to threaten us. And then I hear that this dam is going to cost \$11 billion or something like that, and that we are going to guarantee it. Something does not make sense there.

Mr. COX. Let me try again to see if we cannot at least find some common ground that we can stand on.

Mr. ROHRABACHER. All right. When you are selling your airplanes, OK, you are selling your airplanes, you got me. I say, fine, I understand absolutely why you have got to have that financing.

Mr. COX. OK.

Mr. ROHRABACHER. Because the French will give the financing if you do not and our people are going to be left out.

Mr. ROTH. Mr. Rohrabacher, if the gentleman will yield to me. Basically the question is why not finance the Three Gorges project in China? We are financing our exports and OPIC basically, as I understand it, cannot do business in China.

Mr. COX. That is correct. They are not open to do business. They are not doing business.

Mr. ROTH. So a good definition to Mr. Rohrabacher's questions, would be to analyze this in long-term investment versus exports. Is that right?

Mr. COX. Correct. I mean there is a world of difference between the two issues and I think that is exactly it.

Mr. COX. No. I mean in terms of China, OPIC is not open. TDA is not open in China. In terms of if our friends from Caterpillar were here, they would tell you that they are competing with Kamatsu and others to sell earth-moving equipment to China to build that. And the issue is are we going to put American jobs and American people to work to export that equipment to China or are we going to allow Japan or some other European country to do it on the basis of—

Mr. ROHRABACHER. And the cost to us is what? Of providing—of making those jobs.

Mr. COX. The total cost, as an example, the total cost, and you get into the fact is that Eximbank is part of the subsidy budget, has a budget of approximately \$782 million a year, and it depends upon what countries that they are lending to, and under which program that you score the cost against that budget.

So the issue is who is the country, what is the program, et cetera. The bottom line is that you can take \$782 million, which is essentially the appropriated amount to support Eximbank, and you can create \$18 to \$20 billion worth of U.S. exports. \$1 billion worth of U.S. exports supports 16,000 jobs in this country; sixteen thousand jobs that earn on average 13 percent more than people that are not working in the export business. People that all pay taxes, fuel this economy, are in the private sector.

Mr. ROHRBACHER. But if that money was available here. I mean we are talking about some value there that is being utilized. It seems to me that if we are guaranteeing the loans or subsidizing the interest payments for these projects, well, if we have got a working man and woman who want to buy a home or buy a car or buy some type of washer or dryer or something at home or an air conditioner, it seems to me that that money would be more available to them if we were not doing it over there and people would be making these things in our country.

Mr. COX. I wish that were true but it is not. All right.

Mr. TRAMMELL. One little problem with that is how many of those people would buy an imported car and what does that do to our balance of payments? If we are not exporting, we are not earning the funds to pay—

Mr. ROHRBACHER. I think I am in favor of exporting, but I do not know if I am in favor of actually having the government subsidize exporting.

I have seen it throughout domestically. When you get involved in subsidizing a company, you tear the guts out of it, and eventually—the companies that are the most subsidized are the most inefficient.

Mr. COX. Right.

Mr. ROHRBACHER. And my staff members tell me that Eximbank financed a billion dollars' worth of projects in China last year. It will be interesting to see if—again, if someone is selling grain or apples, I understand that. Or airplanes, I understand that too.

I am having a little question about infrastructure and a little question about manufacturing.

Mr. COX. Every one of those dollars that were expended or financed for China represented U.S. exports. The cost of what specifically was being exported from the United States.

Mr. ROHRBACHER. OK. It was not somebody—

Mr. COX. It was not an investment in the dam. It is nothing else. These are actual exports going to—Eximbank is not—

Mr. ROHRBACHER. One last point, Mr. Chairman, and then I will—

Mr. COX. I think if that is the understanding, I think we are in agreement.

Mr. ROHRBACHER. What hit me was that a fellow I know—I represent Little Saigon. And a fellow I know in Little Saigon, who is a friend of mine, was telling me this project that he planned to do in Vietnam, and it had something to do with a whole new type of—well, he was going to build a whole new infrastructure for Saigon, sewage plants and systems and things. And I just could not help but notice that we have a lot of infrastructure problems here. And

he was getting—and it was all based on whether or not certain money was going to be made available by certain government agencies in the United States.

It seems to me that it does not make sense when we need to build things here.

Mr. COX. I think your friend is going to have a long wait ahead of him. They are not open.

Mr. ROHRABACHER. Well, I appreciate you letting me, Mr. Chairman, indulging me—

Mr. ROTH. Well, this is a very useful discussion, but let me say for the record that Eximbank is not the subject of our reauthorization here.

But I thank Mr. Rohrabacher for his excellent contribution and I share his concerns.

And I thank our witnesses for their excellent answers and their great testimony.

[Whereupon, at 3:30 p.m., the Subcommittee was adjourned.]

APPENDIX

WRITTEN TESTIMONY OF THE AMERICAN CONSULTING ENGINEERS COUNCIL

Presented to the House International Relations Committee
Subcommittee on International Economic Policy and Trade

April 9, 1996



AMERICAN CONSULTING
ENGINEERS COUNCIL

INTRODUCTION

The American Consulting Engineers Council (ACEC) is a national professional association comprised of 52 state and regional chapters. Together, our member firms employ over 200,000 engineers, scientists, land surveyors, technicians and other support personnel who annually design over \$100 billion in constructed works and private industry facilities. With the architects, constructors and contractors, our industry accounts for approximately 15% of the United States' Gross National Product.

ACEC's member firms personify the meaning of "small business". To fully appreciate the scale to which we are referring, the following numbers exemplify the size of our industry. More than 75% of our 5,500 member firms employ 30 people or less; approximately 90% employ fewer than 55 people. Export finance programs, such as the ones administered by the U.S. Trade and Development Agency, Export-Import Bank and the Overseas Private Investment Corporation are critical to the international competitiveness of our businesses.

CONSULTING ENGINEERS

Consulting engineers plan, design, modify, rehabilitate or operate public and private infrastructure facilities in the fields of transportation, water and waste water treatment, urban development, power, energy, environmental remediation, structural and telecommunications. As catalysts in the problem solving process, consulting engineers lead teams of multidisciplined professionals on complex technical projects. They also serve as expert advisors to federal, state or local government agencies as well as to private businesses, industries and developers.

Consulting engineers are typically hired to carry out feasibility studies, prepare conceptual designs, tender documents, implement project analyses and make appropriate contract award recommendations to their clients for construction and equipment supplier contracts, in addition to supervising the construction phase of the projects as well. Where in the past, consulting engineers have provided strictly technical services to their clients, the changing nature of international markets, as well as the needs of their clients have moved them into significant, non-technical areas.

Today, consulting engineers are often asked to provide investment analyses, project financing strategies, management consulting and privatization implementation strategies to many of their clients. For many ACEC members, consulting engineers are now more often than not requested to arrange project financing on behalf of their client. In some cases, the client has requested the consulting engineer to take an equity position in a project under development in order to show our "commitment" to the project's success.

CONSULTING ENGINEERS AND THE EXPORT PROCESS

ACEC's member firms have worked in overseas markets for decades. In doing so, they have pioneered and penetrated markets for other U.S. goods and service providers in over 168 countries. U.S. engineers have conducted feasibility studies as well as designed and supervised the construction of a number of infrastructure facilities in those markets.

The engineering community plays a significant role in increasing the volume and range of U.S. exports around the world. Engineering services are the "opening wedge" of the entire export process and could be considered a key to reducing the U.S. trade imbalance. Currently, overseas capital accounts for over \$47 billion in U.S. export opportunities ranging from construction materials and equipment to follow-on training, operation and facilities' maintenance. These export opportunities are made possible by the studies and designs of consulting engineers on major overseas infrastructure projects.

Consulting engineers are responsible for developing the technical specifications of a project. As a result, suppliers and manufacturers of materials, goods and other support equipment used in the construction of those facilities become competitively positioned for export opportunities. This is a result of the preliminary engineering component and design phase of the project. The fact is, when the client commits to the feasibility study, they are often making a commitment to use U.S. technology and services on that contract.

Our international competition is well aware of the "opening wedge" relationship between engineering services and how they relate to the more lucrative "follow-on" exports that usually ensue as a result of a "victory" in the engineering portion of the competition. The respective governments of Canada, Japan, Germany and France, among others, have stepped up their support for their firms competing on these infrastructure projects. As a result, we have seen a significant decline in the U.S. market share of the international construction market. 1994 U.S. Department of Commerce statistics show that since 1991, U.S. firms have only increased their foreign billings by 2%. European countries, by contrast, increased their foreign billings by 7-8% on an average during this same period. International competition is so strong that U.S. engineers, contractors, operators and suppliers are cooperating with one another more closely than they ever had in the past.

U.S. TRADE FACILITATORS

A. U.S. TRADE AND DEVELOPMENT AGENCY

Competition in global markets often puts consulting engineers toe-to-toe with foreign companies that are strongly supported by their governments. In this environment, some U.S. government programs stand out for the support they provide to "leveling the playing field" in order that U.S. companies can effectively compete against foreign firms. Without the support of agencies like the U.S. Trade and Development Agency (TDA), countless projects and potential business opportunities would be lost to not only U.S. engineering and

construction companies, but also suppliers and manufacturers as well. Programs vital to the continued competitiveness of our industry as well as that of others on a global scale are TDA, the Export-Import Bank (EXIM) and the Overseas Private Investment Corporation (OPIC). Export finance, on terms comparable to those provided to our competitors, is essential to being fully competitive.

The main objective of the U.S. TDA is to assist U.S. companies to obtain overseas projects by financing feasibility studies in foreign countries. TDA offers grant feasibility studies to foreign governments based on the premise that a U.S. firm will be chosen for the project. By funding the feasibility study, TDA is able to **uniquely position the U.S. company** by getting them in on the **early stages of project preparation** and enables those firms to establish the necessary ties with the ministries that have oversight responsibility on infrastructure projects. TDA thus sets the stage for U.S. companies to capture the contracts for project design, construction and equipment supply all in one shot.

TDA uses several factors to assess its participation on projects. They are: development priority; U.S. export potential; project financing availability, and nature and strength of the potential foreign competition. Due to its limited budget, TDA is forced to carefully scrutinize the viability of overseas projects in order that they meet the litmus test of the aforementioned criteria. Often, they have to turn down potential projects because of the lack of budget resources. TDA has been able to make the greatest possible impact in helping U.S. companies not only win overseas development projects, but also influences the quantity of U.S. exports as well. Countries must prove that there is at least 100% return on investment in the form of the sale of follow-up goods and equipment.

B. THE EXPORT-IMPORT BANK

The U.S. Export-Import (EXIM) Bank provides project guarantee funding which enables U.S. banks to make the loans necessary to implement overseas projects. Guarantees of commercial loans to overseas buyers make entering volatile international markets less threatening for U.S. businesses and investors alike.

Exim Bank also allocates funds to foreign buyers who are unable to obtain private financing, provided U.S. goods and services are procured as a result of that borrowing. This tied aid/credit issue is especially noteworthy because it ensures that **access to working capital is dependent upon the sale and export of U.S. services, supplies and equipment** to ensure project implementation. In the electrical power sector alone, U.S. competition for projects totaling billions of dollars are dependent on the guarantees provided by Exim Bank funds. When a U.S. consulting engineer wins a contract in which Exim Bank funds are used by the foreign government, it means that **jobs will be created for the firm that manages the construction, for the firm that constructs the infrastructure and for the manufacturer that makes the turbines which generate the electricity.** These project components are derived from various plants in states across the country. **Simply put, when a victory is awarded to a U.S. design firm overseas for infrastructure projects, members of congress from various states can claim that they have assisted in the creation of jobs in their home state.**

The knowledge and experience of Exim Bank staff is an essential resource for any small or inexperienced firm faced with the often overwhelming task of understanding the elements of project finance.

C. THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

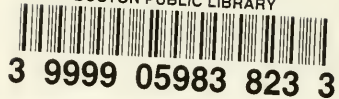
OPIC also has an important role to play in supporting U.S. exports. OPIC plays a pivotal role in assisting in the identification and participation of U.S. capital and skills in emerging markets. It accomplishes this goal by offering political risk insurance to U.S. companies that seek to invest in overseas ventures or expand existing enterprises in those markets. Such coverage reduces U.S. exporters' risk of overexposure in volatile foreign markets.

This type of insurance is especially critical to small and medium sized businesses like consulting engineers who are often asked to provide equity as a requirement to their participation in a project. OPIC's involvement means that small and large companies alike manage the significant risks associated with political instability, currency devaluation, unresolved contract disputes and armed insurrection all of which are associated with doing business in the developing world. ACEC needs only to bring to your attention the current status of the Mexican market to show the impact that risk can have on consulting engineering firms. By offering programs that protect U.S. firms when they venture into overseas markets, OPIC fosters U.S. exports and stimulates international market activity.

HOW THESE U.S. PROGRAMS SUPPORT EXPORTS

In order for us to meet the competitive challenges that our major industrialized trading partners have placed before us, we must recognize that each of the U.S.' export finance programs plays a uniquely critical role in the overall export process. Each facet plays an integral role in facilitating increase trade for U.S. firms and ultimately assists in sustained job creation in states across the country. Yet, perhaps their greatest strength lies in their most obvious weakness. All three agencies operate independently of one another; all three have their separate budgets, mandates and objectives to fulfill and they each facilitate exports in different ways. It is, however, precisely the independent manner in which all three operate which make them extremely successful in championing U.S. business interests in overseas markets.

Collectively, these agencies provide a framework which enables U.S. companies to successfully compete for international projects. Funding for them has directly led to job creation and expanded share of the global market for the U.S. private sector. Most importantly, each is connected to other "links" in the chain of international project financing. Quite often, the World Bank, International Finance Corporation (IFC), commercial banks and other export credit agencies work with U.S. agencies to provide financing for a project. Cutting TDA, EXIM or OPIC budgets will dilute their effectiveness and create a weak "link" in the financing chain. Consequently, developing countries will look towards the more competitive and attractive foreign export credit programs of our industrialized competitors



to provide financing for projects. The level of exports that consulting engineers are able to generate will therefore go to other countries who understand the importance of making it as easy as possible for an engineer to win a major infrastructure project.

One of the greatest strengths of the U.S. Trade and Development Agency is that, in determining whether it will fund a feasibility study, it assimilates into its criteria the availability of project financing. Perhaps most importantly is that TDA, in positioning a U.S. firm to win a feasibility study, also assists in accessing follow-on project financing in other important institutions that provide markets for U.S. goods and services. International institutions like the Multilateral Development Banks are ready-made \$40-50 billion markets waiting to be accessed by U.S. companies. Thus, TDA's role becomes doubly important because it increases the chances that a U.S. firm will win that contract. Its versatility in having access to not only Exim Bank financing, but also MDB financing make it pivotal agency for the U.S. government.

LEVERAGING OTHER MARKETS

The MDBs include the World Bank and four regional development banks: the Asian Development Bank (ADB); the African Development Bank (AfDB); the European Bank for Reconstruction and Development (EBRD), and the InterAmerican Development Bank (IDB). MDBs finance infrastructure markets for engineers, constructors and architects in over 135 developing countries around the world.

Yet, competition for MDB markets has increased significantly over the past decade due to the export potential that the MDBs provide for a wide range of goods and services. Donor countries clearly understand how these banks' markets act as catalysts to the export of goods and services. The Japanese government, for example, has created a number of grant trust funds to pay for Japanese consultants to conduct feasibility studies on potential MDB funded projects. While privatization and increased private investment in infrastructure has become a trend in significant markets in Asia and Latin America, the majority of the infrastructure projects overseas remain funded through the traditional MDB financing and bilateral aid. TDA's programs are often the only opportunity to not just create a level playing field for U.S. firms. Many U.S. consulting engineers have conducted TDA financed feasibility studies that have lead to the award of a major MDB financed contract, and ultimately lead to a long and prosperous relationship between the grant recipient government and the U.S. consulting engineer.

EXAMPLE

Approximately ten years ago, one of ACEC's member firms was approached by the Government of China to participate in the development, design and construction of a large 1200MW supercritical coal fired power plant located the Shidongkou site in the Huaneng province in China. In 1987, this firm faced strong competition for this project. Although our member made the shortlist, it competed against heavily subsidized and export-oriented

countries. However, it was the U.S. Trade and Development Agency that made the difference in the U.S. victory on that project. TDA, at the eleventh hour, added a small training grant to our contract proposal that swung the award of that project to our member firm. **If it had not been for the TDA training grant, used to train the Chinese in the latest power plant design and development technology, the project would have been awarded to a foreign firm.**

Additionally on behalf of the client (the Huaneng International Power Development Corporation) our member was required to arrange export credit financing for the purchase of the necessary equipment to construct the project. The Export-Import Bank served as the cornerstone of that financing by providing the necessary loans and guarantees.

The Shidongkou project was completed and commissioned into service in late 1994. The project totalled more than \$367 million in value of which over \$235 million went to U.S. firms in the form of new business. Of the total 70 subcontracts that were awarded for equipment and services to build the plant, 50 of those contracts went to U.S. suppliers. This is an incredible return on an initial TDA training grant investment of \$750,000 as a part of the contract proposal.

But perhaps the most illustrative part of this example is that not only did our member receive support from two critical agencies (TDA, Exim Bank), but the fact that **they helped create a foundation that provided the basis of an ongoing relationship between ACEC's member firm and the Chinese Ministry of Power.** Since the original Shidongkou project, our member has been awarded the design work of two 700MW units totalling approximately \$600 million in Dandong and Dalian sites for the Huaneng International Power Development Corporation. It is ACEC's belief that TDA deserves praise in helping the U.S. firm develop the necessary relationship with the client in their award of that training grant.

RECOMMENDATIONS

It is ACEC's belief that:

- **the U.S. Congress should strongly support the U.S. trade finance agencies in the budget and appropriations processes.** Their current levels of funding are already insufficient to meet current infrastructure project financing needs. These agencies are not only supportive of U.S. consulting engineers that seek to export their services, but are also instrumental in creating jobs in a myriad of states that have manufacturers and suppliers whose equipment supports the construction of those projects;
- **U.S. design capabilities are the best in the world. But the realities of the international market demonstrate that capitalism is practiced differently among our main industrialized competitors and newly-industrializing countries.**

Although the U.S. has traditionally adopted a laissez-faire approach to the private

sector, foreign government intervention is not uncommon when proposing on these overseas development projects.

Foreign firms often bring with them the financial backing of their government which allows them to undercut U.S. prices, sustain capital losses on bid preparation and offers terms for project financing that U.S. firms could never find. It is no longer sufficient to compete based on a firms level of skill. Increasingly firms are competitive based on what "extras" (training grants) they bring to the table with them. **Corporate welfare is not the issue here, methods of business practice are, and should be recognized as such;**

- these agencies should **remain independent** of one another for the purposes of keeping their missions focused, flexible and strong.



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